

WINTER 2024

OLD MUTUAL WEALTH

JOURNEY



OLDMUTUAL

WEALTH



➤ *Farhad Sader*

SHORT-TERM LOSSES AND LONG-TERM GAINS

As I reflect on the first half of 2024, I am reminded of a saying, “You learn more from losing than winning.” There are two losses that occupied national discourse recently. The first is the loss of the majority vote by the party that has ruled South Africa since democracy. The second is a loss by the Proteas in the ICC T20 World Cup final. Indeed, the Proteas’ loss was a disappointment, as we have been both the number one test and one-day cricket nation at various points since democracy. Reaching our first ICC finals filled us with great pride, and we fought valiantly to beat our BRICS partner India to the cup on the 29th of June. Among other key plays, it took a phenomenal catch off a possible boundary that was surely going to seal it for us.

Strangely enough, but to most people’s relief, the loss for the ANC led to the frankest consideration and inter-political party discussion about what is best for South Africa probably since CODESA. So far, it seems local markets are satisfied with the engagement. President Cyril Ramaphosa was inaugurated and leads a majority of parties under a Government of National Unity agreement. As I write, he has just announced his Cabinet, which seems fairly balanced by most accounts. Although this is not going to solve all of the country’s problems, hopefully it can address a handful of big blockages that hinder economic growth, and placing the Constitution at the centre of this agreement is reassuring to many.

So, to my lessons for both losses. It is the investment principle of staying invested. It would be understandable for national politicians and the Proteas to lose heart, considering the work both have put in to win. However, the goals they want to achieve are long term in nature and they require that one stay the course. Staying invested is not about just pitching up and handing over money. It’s about getting the right advice, investment manager, staying informed of what’s happening in your portfolio and

environment, reviewing strategies where necessary and riding out the losses.

OLD MUTUAL MULTI-MANAGERS UPDATE

The performance of our Old Mutual Multi-Managers Inflation Plus range over more than two decades is testament to our ability to help clients target inflation-beating returns. To ensure that our investment approach evolves and improves, we have recently implemented enhancements to our fund range to deliver positive results well into the future. In addition, with the recent departure of our Chief Investment Offer (CIO), we acted swiftly to appoint Roland Gräbe as CIO with Suvira Bodha as the Deputy CIO effective 1 July 2024 and 1 August 2024 respectively.

REFLECTING ON YOUTH ACTIVISM DURING YOUTH MONTH

South Africa has approximately 11.7 million eligible voters aged between 18 and 40, but unfortunately most elected to not exercise their vote. Specifically, less than 20% of those aged 18-19, and around 40% of those aged 20-29 registered to vote. The overall voter turnout for the 2024 elections was recorded at 58.57%, highlighting a critical disengagement among younger voters.

The implications of these statistics are profound for South Africa’s future. The youth represent a significant portion of the population and increasing their civic involvement and political participation is crucial to building an inclusive society and strong democratic institutions.

RETHINKING RETIREMENT

South Africa’s new two-pot retirement savings system will be effective from 1 September 2024. All current and future retirement fund members will be impacted by the change, so it is important to familiarise yourself with the new structure. Old Mutual Wealth will also be introducing an eligibility tool which will calculate how much retirement fund clients can withdraw from their savings pot post 1 September 2024. You can read more on the two-pot system in this newsletter, and on our website.

STRENGTH IN OUR DIVERSITY

I’m proud to be a South African, because we take on our individual and collective challenges and triumphs with grace and support each other. Even though some may think our peace and unity in diversity is manufactured and temporary, the practice of co-existing peacefully has indeed made us a better nation. Nothing could be a bigger indicator of this than the recent elections. A Government of National Unity may not have been our original idea, but now we are putting aside any misgivings, buckling down and trusting the process. The collective spirit will surely help us achieve our dreams and build a stronger nation.

As always, we remain committed to safeguarding your wealth and providing you with expert guidance as we navigate these changes together.



POST-ELECTION OPTIMISM DESPITE UNCERTAINTY

IZAK ODENDAAL | CHIEF INVESTMENT STRATEGIST

Halfway through an eventful year, there is at last reason to be optimistic. South Africa's seventh democratic national election delivered a surprise result, but the eventual outcome was even better than investors had hoped for. The Government of National Unity (GNU) including the ANC, DA, IFP, GOOD and other parties is very likely to have a strong emphasis on accelerating the reforms needed to lift the economy's pedestrian growth rate. A three-month load shedding-free streak is evidence that some of these reforms are bearing fruit, mainly by allowing the private sector to participate in key industries previously monopolised by the state. Progress on the country's infrastructure challenges should also ease some inflationary pressure, which, together with less political angst and potentially a stronger rand, can give the Reserve Bank comfort to start cutting interest rates in the second half of the year.

“

Halfway through an eventful year, there is at last reason to be optimistic. South Africa's seventh democratic national election delivered a surprise result, but the eventual outcome was even better than investors had hoped for.

”

The formation of the GNU is not the end of the road, but the beginning. Investors need to see evidence of progress, not merely promises. Coalition politics at national level is something new and parties with very different policy priorities and philosophical viewpoints need to find ways to work together. Coalitions are inherently unstable, and can collapse at any moment, but other countries have had such

arrangements for years, so it can be done. It must be said that most parties (there are glaring exceptions) showed welcome maturity in accepting the election results and cooperating in the best interest of the country. This is a boost to the country's democratic credentials and standing among international investors.

There are thorny issues that divide the parties, National Health Insurance (NHI) being one of them. However, the GNU is an opportunity to approach NHI pragmatically, rather than ramming through something that is unworkable.

The international environment is always important to South Africa's economic and investment prospects. The good news is that global economic growth seemingly remains resilient despite high interest rates. Inflation has come down substantially from elevated post-pandemic peaks, though the progress towards central banks' inflation objectives (2% in most developed countries, 4.5% in South Africa) remains uneven. However, because there are long lags between changes in interest rates, economic activity and inflation, central banks do not need to wait until inflation hits their respective targets. Rather, they can start cutting interest rates once a path towards the target is in sight. As a result, some important institutions have reduced rates while others are set to do so in the second half of 2024.

A soft landing where inflation cools and interest rates fall without the world economy tipping into recession seems likely, even though it was thought near-impossible not that long ago. A benign market environment should support South African asset classes, irrespective of domestic political and economic events. However, if we can pull off growth-enhancing reforms in a conducive global climate, it can be a positive double whammy for local investments that are still attractively priced.



OLD MUTUAL WELCOMES THE OFFICIAL SIGNING OF THE TWO-POT RETIREMENT SYSTEM

MICHELLE ACTON | RETIREMENT REFORM EXECUTIVE &
BLESSING UTETE | MANAGING EXECUTIVE OF OLD MUTUAL CORPORATE CONSULTANTS



At the start of June, President Cyril Ramaphosa signed into law the amendment bill that establishes the “two-pot” retirement system, which allows members of retirement funds to access a portion of their retirement savings while still employed. This is a massive step forward for retirement savings in South Africa with significant long-term benefits, which will bolster financial well-being and provide more flexibility. However, the success of the two-pot retirement system hinges on thorough preparation and targeted member education.

One of the most important points to remember is that money will not be accessible immediately. Even though the legislation goes live on 1 September, there are several steps that need to be implemented before funds can be paid out. This is primarily because the allocations to the savings pot can only happen from 1 September onwards.

From 1 September, members will see the lower of 10% of the value of their retirement fund as of 31 August 2024 or R30 000 allocated to their savings pot under the new system. From that point on,



two-thirds of any new savings will be reserved for retirement and cannot be accessed until the member's retirement date. Members of provident and provident preservation funds who were 55 or older as at 1 March 2021 in that same fund, will have the choice of opting into the new system or staying in the current system.

As mentioned, payouts from this emergency pot cannot be made immediately. Seeding calculations can only be conducted after the end of August, using the values from that month. The legislation allows for seeding calculations soon after implementation but not necessarily on that date. As a result, actual access for members will likely take place after 1 September. There is still a significant amount of work that funds need to do to ensure they are ready for the new legislation. This seeding calculation, which determines the initial amounts to be allocated to different "pots" or accounts based on existing



retirement savings, relies on the current amount of savings in each member's retirement account and their market value. This process could take several working days to weeks, depending on the rules set by each retirement fund.

What is also still absolutely critical is the signing of the Pension Funds Amendment Bill, as well as the finalising and signing of the Revenue Laws Second Amendment Bill, before the legislation is completely in place for implementation. The South African Revenue Service (SARS) also has to finalise the system requirements, as no savings pot payments can be made without a smooth tax deduction directive process. Members will need to ensure their tax affairs are in order to apply for a savings pot withdrawal, and SARS may deduct any other outstanding tax before payment is made. All members need a tax number to be able to apply for a savings pot withdrawal.

It is important to confront any misconceptions and enhance financial literacy initiatives to ensure everybody understands the purpose of this retirement reform, in order to ensure the successful integration of the system. Keep in mind that this new system is designed to be an emergency savings vehicle, giving you that initial boost to help build your emergency savings. However, if you deplete it on day one, it ceases to serve as emergency savings. Members need to take the time to understand this new system, and the importance of saving for retirement. It's important to talk to your financial planner before making any withdrawals, as it can have a significant impact on your retirement savings.

In the next few weeks, we'll also be introducing an eligibility tool which, among others, contains a calculator that enables retirement fund members to see how much of their savings is eligible for withdrawal before tax.

This new system promises to provide a sustainable and practical means for South Africans to balance managing immediate financial needs and long-term retirement planning. However, its ultimate success will depend on individual discipline and comprehensive financial education.

You can read more on the two-pot system [HERE](#). If you have any questions, please contact your financial planner or call our service centre at 0860 999 199.



KEY CONSIDERATIONS WHEN INVESTING OFFSHORE

TREVOR JOHN | HEAD OF OLD MUTUAL INTERNATIONAL SALES AND DISTRIBUTION



Globally, inflation is spiking and the cost of living keeps rising. The Russian onslaught on Ukraine continues unabated creating further instability and adding to potential food shortages, while the Israel-Hamas war compounds global uncertainty. In South Africa, political uncertainty continues to impact growth and, along with the deterioration in the rand/US dollar exchange rate, the appetite for offshore remains. South Africa represents less than one percent of the world economy. Limiting portfolios to local investments only is an opportunity missed to invest in some of the biggest and most successful businesses and markets in the world. The decision to invest offshore is predominantly influenced by the search for superior returns in addition to stability and security of assets, in hard currency.

CURRENCY FLUCTUATIONS

Preoccupation with the short-term volatility of the rand and the conversion rate in question when planning to invest abroad is prevalent among local investors. Traditionally, while the rand strengthened, global markets tended to correct at the same time, voiding the strong showing of the rand.

In the past, it seldom happened that the rand strengthened while the markets go down. It still holds that while you're waiting for that "perfect" time for the rand to improve to send money offshore, the markets are continually moving. Investors would do better to phase in these investments over a set period, to account for these currency fluctuations. Timing the rand remains a risky strategy. And more importantly,



from the time that investors take the money offshore, they need to value the investment in the currency in which they have invested. If they've chosen US dollars, then growth needs to be measured in US dollars.

WHERE TO INVEST?

While the South African investment environment is relatively limited, offshore investing has the added complexity of a choice of thousands of companies and funds to invest in. This is where intimate knowledge of and expertise in the offshore investment space play a crucial role.

“

Ultimately, when looking at offshore opportunities, investors, together with their financial advisers, need to consider time in the market, not timing the market or the rand.

”

If an investor is risk-averse, lumping all their money into risky offshore equity markets is futile. First and foremost, an investor risk and needs analysis must be done by their financial adviser to decide on the various asset classes to invest in abroad. Money invested offshore is normally for medium- to long-term horizons and often forms part of investors' discretionary investments.

There is also the added complexity of geographical exposure to markets in the US, UK, EU or emerging markets, among many others. It is thus highly advisable that a client's investments be taken care of by a financial adviser, in conjunction with an investment manager, who can structure a discretionary portfolio according to the investor's risk profile.

Ultimately, when looking at offshore opportunities, investors, together with their financial advisers, need to consider time in the market, not timing the market or the rand.

Investors who are eager to explore their offshore options should focus on more than just returns. In addition to potential returns, the various investment structures available also need to be considered, as well as tax implications and estate planning consequences. All of these factors can impact the ultimate success of an investment.



WHAT HAPPENS WHEN YOU INHERIT AN ASSET FROM AN OFFSHORE ESTATE?

GODWIN MAGOSHA | FIDUCIARY SPECIALIST AT OLD MUTUAL WEALTH

When a loved one who has emigrated dies, and you stand to inherit from their foreign estate, it's important not to make hasty decisions regarding inherited assets. There are many options, each with tax implications, that need to be carefully assessed before deciding what to do with the property or other assets.

While South African residents don't need to disclose any inheritance received from a foreign estate of a South African tax non-resident and selling this foreign inheritance doesn't require reporting the sale to the SA Reserve Bank's Financial Surveillance Department, there are still numerous intricate tax and legal factors to consider.

For example, people who have inherited offshore assets could consider either keeping or selling them through various mechanisms to streamline their estate and tax affairs.

However, the decision on what to do with an asset should not be taken lightly and will require not only a sound legal and tax understanding of the foreign jurisdiction in which the assets are located, but also knowledge of local tax laws.

Using the example of the implications under South African law for a citizen and tax resident inheriting a rental property in the UK from a departed relative who had relocated some time ago, people need to take the below into consideration:

If you (being a South African resident taxpayer) decide to keep the offshore property and rent it out, it will result in two outcomes. The property will form part of your worldwide estate and give rise to rental income. The rental income will need to be disclosed to the South African Revenue Services, because of the worldwide income regime applicable to resident taxpayers. A further tax submission will have to be done in the jurisdiction where the property is located, in this case the UK.

Since the foreign property is part of your worldwide estate, it is important that you understand the succession laws of the jurisdiction where the property is located. To avoid intestate succession being applied to the foreign property, a will compliant with the rules of the jurisdiction in which the property is located should be executed.

From a South African estate planning perspective, a property inherited from a foreign estate of a non-resident is not subject to estate duty, although capital gains tax may be payable on that property at death.

Another option to a resident beneficiary may be to sell the property as soon as it is transferred into their name. The proceeds can be kept offshore and invested in suitably structured products. By selling a property as soon as it is acquired, you sell it before there is a capital gains liability build-up, because the market value and the base cost of the property will be almost equal. The proceeds from the sale of the property remain exempt from South African estate duty, provided you do not bring those proceeds back into South Africa. You benefit from a reduced compliance obligation, like the tax compliance mentioned above.

“

While South African residents don't need to disclose any inheritance received from a foreign estate of a South African tax non-resident and selling this foreign inheritance doesn't require reporting the sale to the SA Reserve Bank's Financial Surveillance Department, there are still numerous intricate tax and legal factors to consider.

”

The good news is that, as of 23 February 2022, selling an inherited foreign asset to another person doesn't need prior written approval from the Surveillance Department of the South African Reserve Bank, as long as this is in compliance with local tax rules. There are numerous aspects to consider when dealing with various aspects of tax laws. Therefore, you definitely need to get in touch with an expert. For example, the property can be donated to a foreign trust as soon as the property is transferred from the foreign estate into your name, without incurring South African capital gains tax and donations tax. However, this may trigger the application of tax attribution rules leading to income tax obligations for distributions made from the foreign trust to non-resident beneficiaries.

Because of the complicated and intricate tax and legal implications in the local and foreign jurisdictions, it is crucial for anyone dealing with this sort of situation to seek guidance from a qualified and an accredited financial planner or fiduciary specialist for professional assistance.



INCREASE IN MINIMUM AND MAXIMUM ADMINISTRATION FEES

At Old Mutual Wealth, we aim to ensure that while we partner with you on your wealth journey, we continue to provide you with exceptional service and investment administration. Our integrated wealth offering remains competitive.

WHAT IS CHANGING?

To maintain our excellent service offering, we will be increasing our minimum and maximum administration fees on all contracts with effect from 1 October 2024.

	Standard Old Mutual Wealth contracts	Contracts with min fee below R115
NEW Minimum Administration Fee	R163.00	R126.00
NEW Maximum Administration Fee	R815.00	R815.00

Mostly, minimum fees will increase to R163 and maximum fees will increase to R815. On a small number of contracts where the minimum fees are currently below R115, the fee will increase to R126.

If your minimum fees will increase to R126, you will receive a notification in this regard.



QUESTIONS?

If you have any questions or need more information, please contact your financial planner or our dedicated service centre at 0860 999 199.



Old Mutual Wealth (OMW) is an elite service offering brought to you by several licensed Financial Services Providers in the Old Mutual Group. This document is for information purposes only and does not constitute financial advice in any way or form. It is important to consult a financial planner to receive financial advice before acting on any information contained herein. OMW, the Old Mutual Group and its directors, officers and employees shall not be responsible and disclaim all liability for any loss, damage (whether direct, indirect, special or consequential) and/or expense of any nature whatsoever, which may be suffered as a result of, or which may be attributable, directly or indirectly, to the use of, or reliance upon any information contained in this document.



WEALTH